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August 24, 1976

SUBJECT: Rural Housing Trends and FmHA's Role, 1950-1975

TO: The Under Secretary
Assistant Secretary for Rural Development

Here is a staff paper prepared by OMF on rural housing trends and FmHA's role for the years 1950-1975 for your use in reviewing FmHA program and financial proposals, and making recommendations to the Secretary for the FY 1978 housing programs and budget. The highlights for 1950-1975 are:

- Occupied housing increased from 15 million to more than 22 million units.
- Occupied substandard housing declined from 9 million to 2 million units.
- FmHA has financed about 900,000 housing units since 1950, including 645,000 new units. In FY 1975, FmHA financed about 23 percent of all new standard housing built in non-SMSA's.
- FmHA housing programs, however, have contributed little to the direct reduction of occupied substandard housing; less than 5 percent of the 7 million unit reduction. Water and sewer programs may have helped more.
- Based on family income and eligibility criteria, FmHA housing programs can only reach about 1 of 2 families, or 725,000, projected to be living in substandard housing in FY 1978.
- FmHA proposes to finance 170,000 new and existing units in FY 1978. Only about 22,000 will contribute to direct reduction of substandard housing.
- Families in substandard units that can be reached by FmHA occupy only 3 out of every 100 occupied housing units in rural areas. So, it is doubtful they can be served effectively without a strong ES or FmHA outreach effort.
- Based on 1974 data: 82 percent of FmHA borrowers are renters; 55 percent are less than 30 years of age; 64 percent live in towns larger than 2,500.
- These trends and related data indicate that FmHA housing loans are strongly oriented to rural areas experiencing population and job growth, areas adjacent to metropolitan jobs, and areas where private credit terms are more severe and not competitive with the easy terms of FmHA 33-year mortgages with low down payments, especially for borrowers under 30 years of age who are largely renters living in standard housing and with correspondingly lower income levels.

You may wish to ask FmHA to comment on this paper.

js
J. PAUL BOLDUC
Assistant Secretary for Administration

Attachment

Trends in Rural Housing and FmHA Role 1950-1975

Contents

	<u>Page</u>
Occupied Housing Trends in Non-SMSA's.....	1
The Federal and FmHA Roles in Financing New Housing.....	2
FmHA's Role in Reducing Substandard Housing.....	3
Appendix Table 1.....	6
Appendix Table 2.....	7
Appendix Table 3.....	8

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Trends in Rural Housing (Outside SMSA's) ^{1/} and FmHA Role
1950-1975

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Occupied Housing Trends in Non-SMSA's, 1950-1974

- From 1950 to 1974, total occupied housing units in non-SMSA's increased from 15.5 million to 22.2 million, or 43% (Table 1).

Table 1. Trends in Occupied Housing by Condition, Outside SMSA's, 1950-1974 ^{1/}

Condition of Housing Units	Year			
	1950	1960	1970	1974
	----- 1,000 units -----			
Total units	15,481	16,947	19,587	22,156
Standard	6,401	12,062	16,704	20,057
Substandard by ownership	9,080	4,885	2,883	2,099
Owner occupied	5,120	2,606	1,555	1,057
Renter occupied	3,960	2,279	1,328	1,042
Substandard by Condition	9,080	4,885	2,883	2,099
Dilapidated w/o complete plumbing	2,122	998	621	778 ^{2/}
Lacking complete plumbing	6,825	3,630	1,765	689 ^{2/}
Dilapidated with complete plumbing	133	257	497	632 ^{3/}

^{1/} Derived from Census of Housing and Population. Based on 1970 SMSA boundaries.

^{2/} Total housing w/o complete plumbing in 1974 is Census data. Subtotals are ERS.

^{3/} ERS estimate.

- Occupied substandard housing was reduced by 7 million units, from 9.1 million to 2.1 million: from 59 percent of all occupied housing in 1950 to 9 percent in 1974. The largest reduction of substandard housing was for nondilapidated units lacking complete plumbing, a reduction of more than 6.1 million units.
- The poorest housing, dilapidated and without complete plumbing, was reduced only by about 1.3 million units. Dilapidated but with complete plumbing has increased since 1950 by .5 million units indicating that lack of housing maintenance may be a more resistant problem in rural areas than incomplete plumbing.
- In 1974, half the substandard housing was owner occupied; half renter occupied.
- Occupied rental housing in non-SMSA's in 1974 was the same as in 1950 (Table 2), but declined from 40 percent of total occupied units to 27 percent.

^{1/} Data for FmHA areas available only for 1970. About two-thirds of FmHA area is in non-SMSA's and one-third in SMSA's. The 1970 data indicate that housing trends in the SMSA areas served by FmHA are very similar to those in non-SMSA areas not served by FmHA. So, any bias introduced by using non-SMSA's for FmHA area is relatively small.

Table 2. Renter Occupied Housing, 1950 to 1974

Area	1950	1960	1970	1974
	-----1,000 units-----			
Non-SMSA's	6,114	5,600	5,791	6,080
Rural Areas -- Places less than 2,500	5,151	4,242	3,780	NA
FmHA Areas	NA	NA	5,295	NA

Sources: Same as Table 1.

- Occupied rental housing in rural areas, including places of 2,500 or less declined 27 percent from 1950 to 1970, to 3.8 million units. These data and FmHA area data for 1970 (Table 2) indicate that occupied rental housing declined somewhat more in FmHA areas than for non-SMSA's.

The Federal and FmHA Roles in Financing New Housing

- New housing units constructed outside SMSA's from 1950 to 1975, including mobile homes, total 12.4 million (Table 3). Of this number, 3 million or 24 percent were financed with direct or guaranteed loans from Federal agencies including HUD, VA, FmHA and FCA; 645 thousand new units or 5.2 percent were financed by FmHA.

Table 3. Distribution of New Housing Units Constructed Outside SMSA's, Including Mobile Homes, with Direct or Guaranteed Loans from Federal Government Sources, 1950-1975.

Year	Source of Federal Financing					Total Units Constructed	% of Total with Federal Financing
	HUD	VA	FmHA	FCA	Subtotal		
	-----% of total units-----				-----1,000 units-----		
1950-59	15.7	11.7	.6	1.6	1,108	3,750	29.5
1960-64	11.1	4.1	2.0	1.2	399	2,164	18.4
1965-69	10.3	2.1	5.0	1.3	458	2,457	18.6
1970	21.5	1.7	10.0	.7	196	578	33.9
1971	15.6	2.8	11.0	.7	214	712	30.1
1972	10.9	3.6	10.3	.9	209	816	25.6
1973	6.7	1.8	9.4	1.2	157	824	19.1
1974	6.8	1.6	11.9	2.3	139	616	22.6
1975	8.8	2.3	17.1	2.1	156	514	30.4
Totals					3,036	12,432	

Source: Derived from data provided by Ronald Bird, USDA, ERS, Dec. 1975.
See Appendix Table 1 for actual housing numbers.

- The proportion of new housing units financed with Federal assistance varied from decade to decade and shifted significantly among the Federal agency sources.
- ** Federal sources financed 30 percent of new housing in the 1950's, 18 percent in the 1960's, and 34 percent in 1970, but declining to 19 percent in 1973, and increasing again to more than 30 percent in 1975.
- ** VA financing decreased from 12 percent in the 1950's to about 2 percent in recent years. FCA financing has been very small, increasing to a little more than 2 percent in 1974 and 1975. HUD financing increased from 16 percent of new units in the 1950's to 22 percent in 1970 and then declined sharply to 9 percent in 1975.
- FmHA's role in Federal financing of new housing has increased steadily since 1950, slowly at first but rapidly following the Housing and Urban Development Act of 1968 and the more recent retrenchment of HUD subsidized housing, especially after 1972. In 1975, FmHA financed 17 percent or 88 thousand of the 514 thousand new units constructed outside SMSA's. If mobile homes are excluded, 1/ FmHA financing accounted for 23 percent of the new standard units constructed.
- ** From 1970 to 1974, when new housing units constructed outside SMSA's were at their peak levels -- over 709 thousand units a year -- FmHA financed an average of 74 thousand a year, a little more than 10 percent. The percentage of standard units financed, excluding mobile homes, was about 16 percent.

FmHA's Role in Reducing Substandard Housing

- The role of the FmHA housing in reducing substandard rural housing is difficult to assess because data has not been systematically collected over the years on the previous quality of housing of FmHA borrowers. However, a stratified random sample taken by FmHA in FY 1974 indicated that 19 percent of its borrowers had previously been living in housing lacking complete plumbing (substandard, 13%), and/or crowded with more than 1.5 persons (inadequate, 6%). These data are the best available information for estimating the impact of FmHA housing on the reduction of substandard occupied units; 19% is used as an upper limit and 13% as a lower limit.
- FmHA financed close to 900 thousand new homes and purchases and/or rehabilitations of existing homes from 1950 to 1975. Applying the foregoing percentages indicates that this housing assistance enabled 110 thousand to 180 thousand household units to move directly from substandard to standard housing. This constitutes about 1 to 3 percent of the reduction of substandard housing during this 25-year period. FmHA housing programs, thus, have contributed only in a minor way to the direct reduction of substandard housing in rural areas.

1/ FmHA has authority to finance mobile homes but has not, as yet, implemented it.

- Because most of the reduction in substandard housing resulted from elimination of occupied housing without complete plumbing, FmHA water and sewer programs probably contributed much more than FmHA housing programs, especially that part directed to areas with identified health and safety hazards associated with water and sewer systems. The 645 thousand new units financed by FmHA from 1950 to 1975 also may have contributed through the "trickle down" process, but there are no available estimates on this aspect of FmHA housing programs.
- If the effectiveness of other Federal housing programs is assumed to be the same as estimated for FmHA in reducing substandard housing in rural areas, then their contribution would range between 350 thousand and 570 thousand units of the total reduction of substandard housing of 7 million units -- 5 to 9 percent, not a great deal more than FmHA programs.
- Thus, the great reduction in substandard housing, close to 90 percent of the total since 1950, is attributable to private sector financing together with the improvement of incomes of occupants of rural housing.
- The reduction of occupancy of substandard housing has occurred at about the same rate for all family income classes (see Appendix Table 2). The percent of substandard housing eliminated since 1950 ranged from 75 to 81 percent for all income classes except \$10,000 and over; for the latter, it was 67 percent. This lower rate is probably due to the shift of incomes of occupants of substandard housing to this highest income class.
- FmHA housing loans have had a significant role in reducing the proportion of occupied rental housing in FmHA areas. Home ownership has been a major aspect of FmHA programs. In its 1974 survey, FmHA estimated that 82 percent of its borrowers who purchased or built a home previously were renters.
- FmHA has estimated its housing programs could serve 1.2 million of the 3.1 million families who occupied substandard units in FmHA areas in 1970. Applying the same FmHA family income and income eligibility criteria to the 2.1 million substandard units in 1974, reduces the reachable group to 907 thousand (see Appendix Table 3). If reduction of substandard occupied housing continues at the annual rate of 6.75% experienced since 1970, this group will fall to less than 725 thousand in 1978. It would result largely from private sector financing and income improvement, and demise of older residents who predominantly occupy the substandard units.
- About 75 percent of the occupants of substandard units in FmHA areas are over 40 years of age, but only 20 percent of FmHA loans surveyed in FY 1974 went to this age group; 55 percent went to borrowers under 30 years of age.
- For FY 1978, FmHA proposes to finance 170 thousand housing loans for new units and the purchase and/or rehabilitation of existing units under its low and moderate income and rural rental housing programs. At recent rates of experience, only 22 thousand of these loans would contribute directly to the reduction of substandard housing occupied by the 725 thousand families estimated to be within reach of FmHA's programs in 1978.
- The balance of the loans, 158 thousand, would be used to finance the construction and/or ownership of new units and the purchase and/or repair of existing housing for families already living in existing standard housing.

- Office of Audit estimates of FmHA housing locations in FY 1974 for five States, indicate that 35 percent of FmHA loans were made in counties adjacent to urban areas (Mo., 18%; N.C., 24%, Pa., 39%; Calif., 44%, Tex., 61%). If the 35% average is near applicable to the Nation, then up to 63 thousand of the 170 thousand units planned for FY 1978 may be located "adjacent to or near metropolitan areas." Substantial numbers of these borrowers would be former metropolitan residents. According to FmHA's FY 1974 survey, 64 percent of its borrowers lived in towns larger than 2,500 population; 36 percent lived on farms or open country places.
- If the patterns found in the five States covered in the FY 1974 Audit are typical for the Nation, then there will be disproportionately high loan levels in many counties with low levels of substandard housing and low loan levels in counties with higher levels of substandard housing. Because the density of substandard housing that can be remedied by FmHA programs in rural areas is extremely low, about 3 out of every 100 units, FmHA probably cannot increase the effectiveness of its programs in reducing substandard housing without an effective outreach program to locate and interest occupants of substandard housing in improving the condition of their homes. This might be done by the Extension Service or by FmHA working with third party groups.
- Trend data on housing condition (Table 1) shows that dilapidated housing with adequate plumbing is rising significantly in rural areas while occupied housing without complete plumbing is being rapidly reduced. This indicates that lack of housing maintenance may be a more resistant problem for improving the quality of rural housing than lack of complete plumbing. Yet FmHA is planning to repair or rehabilitate less than 5 percent or about 7,500 of the 170 thousand units it proposes to finance in FY 1978 under the low and moderate income and rental housing programs. The maintenance and rehabilitation of existing housing may deserve much high priority, but it would also probably call for more outreach and promotional activity to achieve, including staffing levels in the field.
- The Audit of FmHA rural rental housing in FY 1973-FY 1975 indicated rental rates exceeded the means of low and moderate income families. The trend data for rural housing (Table 1) indicate that substandard rental housing is a substantially more resistant problem than owner occupied substandard housing. Using HUD Section 8 funds jointly with FmHA rental housing loans could increase the effectiveness of FmHA rental loans in ameliorating this problem. Otherwise, special outreach efforts would be needed to locate the opportunities and plan projects with lower construction costs and lower rental rates which could be financed by FmHA rental housing program. FmHA programs, in general, are geared to respond to demands.
- The FY 1973-FY 1975 Audit of FmHA housing activities indicated that housing loan fund allocations, especially below State levels, were usually made on the basis of historical performance rather than level of housing needs based on substandard housing. FmHA practice generally has also been to respond to demands. These practices and the low proportion of direct assistance to families occupying substandard housing, indicate that FmHA rural housing loans are strongly oriented toward rural areas experiencing population and job growth, areas adjacent to metropolitan job opportunities and areas where private credit terms are more severe and not competitive with the easy terms of FmHA 33-year mortgages with low down payments, especially for borrowers under 30 years of age who are largely renters living in standard housing and with correspondingly lower income levels.

Appendix Table 1

Estimated Number of Housing Units (including mobile homes)
Completed Outside SMSA's with Direct or Guaranteed Loans by Governmental
Sources, 1950 to 1975 ^{1/}

: Source of Governmental Assistance :							
Year :	:	:	:	Farm :	:	:	Proportion
:	HUD :	VA :	FHA :	Credit :	Total :	Total :	helped
:	:	:	:	Admin. :	:	Const. :	by Government
.....1,000 units.....						Percent	
1950 :	73	40	3	5	121	501.1	24.1
1951 :	53	55	2	5	115	362.1	31.8
1952 :	58	37	2	5	102	370.2	27.6
1953 :	57	39	2	6	104	356.3	29.1
1954 :	67	47	1	6	106	386.4	30.0
1955 :	52	74	0	8	134	415.2	32.3
1956 :	48	60	1	8	117	343.5	34.1
1957 :	48	42	2	5	97	304.8	31.8
1958 :	62	18	4	6	90	333.0	27.0
1959 :	74	28	4	6	112	377.7	29.7
1960 :	63	27	5	5	100	395.1	25.3
1961 :	55	20	6	4	85	396.8	21.4
1962 :	44	16	12	5	77	425.1	18.1
1963 :	38	14	14	6	72	478.3	15.1
1964 :	41	11	7	6	65	468.6	13.9
1965 :	42	11	15	7	75	510.3	14.7
1966 :	39	14	22	7	82	432.4	19.0
1967 :	47	10	26	7	90	484.8	18.6
1968 :	62	10	26	5	103	507.2	20.3
1969 :	64	6	33	5	108	522.1	20.7
1970 :	124	10	53	4	196	578.0	33.9
1971 :	111	20	73	5	214	712.0	30.1
1972 :	89	29	84	7	209	816.0	25.6
1973 :	55	15	77	10	157	824.0	18.7 19.1
1974 :	42	10	73	14	139	816.0	22.6
1975 :	45	12	88	11	156	514.0	30.4
1976 :					160	596.0	26.3

^{1/} Source: Ronald Bird, USDA Econ. Res. Ser., Dec., 1975

Appendix Table 2. Distribution of Substandard Housing by Income Class in Non-SMISA's.

Household Income in 1974 Dollars	Substandard Housing				Percent Reduction of Substandard Housing			
	1950	1960	1970	1974	1950 to 1960	1960 to 1970	1970 to 1974	1950 to 1974
	-----1,000 units-----							
Less than \$2,000	2,594	1,478	898	645	43	39	28	75
\$2,000 - 2,999	1,293	739	388	301	43	47	22	77
\$3,000 - 3,999	1,295	568	304	248	56	46	18	81
\$4,000 - 4,999	971	460	258	190	53	44	26	80
\$5,000 - 5,999	807	339	202	160	58	40	21	80
\$6,000 - 6,999	620	307	176	122	50	43	31	80
\$7,000 - 9,999	968	591	325	205	39	45	37	79
\$10,000 and over	527	402	333 332	228	24	44 17	32 31	67 57
Total	9,080	4,884	2,883	2,099	Aver. Annual Rate 4.6	4.1	6.75	3.2

Source: Derived from Census of Housing and Population and adjusted by OMF to constant 1974 dollars.

Appendix Table 3. Estimated Number of Families in Non-SMSA's in Income Classes, that can be Served by FmHA Programs, 1970 and 1974

Income in Constant 1974 Dollars	Number of Substandard Housing	
	1970	1974
	- - - - -1,000 units- - - - -	
Total families outside SMSA's in substandard housing	2,883	2,099
Minus families with poverty incomes of <u>\$3,000</u> or less	<u>-1,286</u> 1,597	<u>-946</u> 1,153
Minus families with income over \$15,000 (FmHA serves only low and moderate income families)	<u>-92</u> 1,505	<u>-63</u> 1,090
Minus families of 4 or more with incomes between \$3,000 and \$4,000 who are considered to be in the poverty group and do not have enough income to qualify for a loan	<u>-224</u> 1,281	<u>-183</u> 907



